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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -
JULY 16

MADRID 00001440 001.2 OF 003

EFIN/EINV: Ambassador hosts Finance Minister Solbes with
AMCHAM
PGOV/ECON: Juan Costa to oversee PP's electoral program
EINV/ECON: Spain 24th in World Technology Competitiveness
league
EINV/EFIN: Possible Real Estate Bubble will not affect all
companies equally
ELAB: Businesses have not yet complied with new gender
equality law
EAGR/BEXP: Aflatoxin inspections to begin on US almond exports
ECPS/EFIN: Telefonica to focus on internal growth
SENV/EINV: Inditex attempts environmentally friendly growth
EINV: New law to reduce minority shareholder's ability to
prevent takeover bids

RAISING THE PROFILE OF ECONOMIC-COMMERCIAL ISSUES IN THE
BILATERAL RELATIONSHIP - AMBASSADOR HOSTS FINANCE MINISTER
SOLBES WITH AMCHAM ON JULY 17

¶1. (U) In what we hope to be the first of biannual meetings,
the Ambassador led a discussion with Vice President and
Finance Minister Solbes and AmCham board members on economic
issues of interest to the AmCham. Ambassador attended a
similar event with the Minister of Industry on May 10, and we
intend to organize a meeting along similar lines with the
Minister of Agriculture towards the end of the year. The
AmCham members raised the double taxation treaty, holding
company tax issues, public sector contract bidding
challenges, the lack of English proficiency in Spain, and the
difficulty of getting visas for high-tech staff in Spain.
The Minister of Finance was in his element. Without
necessarily agreeing with all of the lunch participants, he
provided perspective and was open to reviewing the AmCham
suggestions. The Minister also said growth would slow down
next year to 3.2% from 4% this year, although that was a good
thing according to him. His main concern is not the effect
of European Central Bank interest rate hikes per se but
rather how the stronger euro might affect the economic
situation. Septel to follow.

OPPOSITION CONSERVATIVE PP PARTY CHOOSES RODRIGO RATO PROTEGE
JUAN COSTA TO OVERSEE DEVELOPMENT OF ELECTORAL PROGRAM

¶2. (U) The 42 year old Costa is a former Science and
Technology Minister. He will edit the PP's electoral
program. (Comment: The Costa appointment is widely seen as
evidence of resigning IMF Chairman and former Finance
Minister Rodrigo Rato's influence on the PP. The appointment
may presage economics gaining greater prominence in the PP's
message. (Expansion, July 17, 2007)

SPAIN NUMBER 24 IN WORLD TECHNOLOGY COMPETITIVENESS LEAGUE

13. (U) The Economist Intelligence Unit (EIU) says Spain is ranked 24th in its world technology competitiveness report. The EU says the UK occupies the number 4 spot, Germany number 16, France number 18 and Italy number 23 so Spain is last among the big five EU economies. The EIU study was financed by the Business Software Alliance, which also factored in the importance of a good Intellectual Property Rights environment. (Cinco Dias, July 12, 2007)

NOT ALL SPANISH COMPANIES EQUALLY EXPOSED TO POSSIBLE REAL ESTATE BUBBLE BURST

14. (U) The well known FT commentator Leslie Crawford, recently said: "Since the start of the year, the Spanish economy has felt like a huge party on the Titanic, cruising heedlessly onto an iceberg of corporate debt." She focuses a lot on the increase in corporate debt and signs that the housing market is finally cooling down. For instance, property sales fell 7% in 2006 compared with 2005. Crawford then goes on to separate Spanish companies into three broad categories. First, firms that are investing in capital goods (increased investment in this sector is something the government likes to trumpet) to meet demand from Germany in many cases. GE Spain CEO Mario Armero says: "Investment in capital goods is a new motor of economic growth." Second, companies, often construction firms, that have bought controlling stakes in other enterprises such as Ferrovial's purchase of UK airport operator BAA. Third, construction groups that have borrowed heavily to buy non-controlling stakes in other companies - Crawford mentions Sacyr Vallehermosa, ACS, Acciona and Colonial. She thinks these companies are very vulnerable to interest rate hikes and a consequent slowdown in real estate. Crawford concludes that this economic cycle will not necessarily "end in tears," but does think that some major Spanish firms are no longer "masters of their own destiny." (Comment: Interestingly the

MADRID 00001440 002.2 OF 003

only firm in the capital goods investing category that Crawford mentions is an American company, GE. That does not mean there aren't Spanish firms that invest in capital goods. There are a number, especially in the renewable energies sector, but it is interesting nonetheless. Spain still does not have a single really big flagship technology-based company.) (FT July 14)

EQUALITY LAW UPDATE: BUSINESSES HAVE NOT YET COMPLIED

15. (U) Minister of Labor Jesus Calderon reported this week that businesses had yet to draft plans that would comply with the recently passed "equality law" (Ley de Igualdad 2007). Among other provisions, the law mandates that any business in Spain with more than 250 employees develop a "gender action plan" to actively "prevent discrimination based on gender." The law envisions for example that businesses would provide additional family benefits such as paternity leave to those workers who have not traditionally received it, and would potentially take measures to increase female representation in higher levels of the corporate world. This law has received much criticism from local businesses who say it is unwieldy and interventionist. Though still early for full implementation, experts worry that the more than 4,700 businesses currently subject to the law will have difficulty complying with it.

AFLATOXIN INSPECTIONS TO BEGIN ON US ALMONDS

16. (U) Spain is the most important export market for U.S. almonds, and the Government of Spain (GOS) will start inspecting all U.S. almond shipments for aflatoxin beginning September 1, 2007, in compliance with a European Commission (EC) directive. The inspection rate will be 100 percent for U.S. shipments that are not exported under the Almond Board's voluntary aflatoxin sampling program (VASP) and at a five

percent rate for VASP shipments. In a July 18, 2007, meeting with the health ministry (charged with conducting the increased inspections), the GOS agreed to provide the U.S. Government through the U.S. Embassy any and all U.S. almond inspection-related data beginning September 1, 2007. USDA/Washington will use the data to monitor aflatoxin levels in shipments under the VASP, versus those not under the VASP, and to ensure that the inspection rates are not in excess of those mandated by the EC.

TELEFONICA SWEARS OFF FURTHER LARGE ACQUISITIONS TO FOCUS ON INTERNAL GROWTH

17. (U) Spanish telecom giant Telefonica has promised no more major deals. Although this would fly in the face of industry trends, for Telefonica the move makes sense. More than 100 billion euros worth of acquisitions over the last ten years has kept Telefonica a step ahead of rivals through growth abroad. However, Telefonica has accumulated 55 billion euros worth of debt. Furthermore, Telefonica faces the industry wide challenges of poor business in fixed-line phone service, and high competition in European mobile phone and high speed internet markets. Telefonica says that now the time is right to start paying down debt and concentrating internally on improving its services. Whatever Telefonica's course, the future looks bright. Analysts believe that estimates of a 14%-20% increase in operating profits this year could be realistic if Telefonica performs strongly in Mexico and Brazil. If Telefonica can improve overall service to win business in Europe and reap the benefits of Latin American growth, the firm should continue to prosper.

INDITEX ATTEMPTS ENVIRONMENTALLY FRIENDLY GROWTH

18. (U) The Spanish textile group and owner of the Zara fashion brand is in the process of spending 380 million euros improving logistical operations from 2006-2008 in order to facilitate growth, particularly in Europe, but also in emerging markets. As part of this plan, Inditex expects to spend 70 million euros in order to obtain 50% of the energy required to run its logistical operations from renewable sources by 2010. This will be accomplished through the installation of solar panels on its logistical operations centers, the use of bio diesel fuels and low emission vehicles in its transportation fleet, and by improving energy efficiency in its stores and factories. Inditex, which already uses solar power at its headquarters in Arteixo, says that it expects its investment to be both environmentally friendly and profitable.

NEW LAW TO REDUCE THE POWER OF MINORITY SHAREHOLDERS TO PREVENT TAKEOVER BIDS

MADRID 00001440 003.2 OF 003

19. (U) The GOS is finalizing a new law that will reduce the ability of a minority shareholder protecting a company from a potential takeover bid. The new law, scheduled to take effect on August 13, says that a minority shareholder must have 30% of the voting rights versus 25% today, in order to be able to prevent a takeover bid. Another "lesson learned" from the controversial takeover attempt of the energy utility Endesa reflected in the new law is the requirement that a company that decides to defend itself from a takeover bid must submit to a general meeting of shareholders. (Expansion, July 17)

AGUIRRE